Managed Voice Services

We offer a wide range of voice enhancement capabilities to our business customers. Our hosted telephony services are designed to enable the layering of a broad set of Information Technology (IT) and telephony services on both private branch exchange (PBX) and IP/Session Initiation Protocol (SIP) based voice networks. These services are designed to work with both legacy and IP-based voice networks and additional services can be implemented as needed. Voice over the Internet or voice over IP (collectively, referred to as VoIP) may be regulated as traditional voice service in certain countries. Moreover, countries, including the United States and the European Union, that today impose few restrictions on the provision of Internet services, including VoIP, may, in the future, adopt rules regulating VoIP services in a manner similar to the way they regulate basic voice telecommunications services. For example, to date, in the United States the regulatory status of VoIP services that permit pick-up and delivery of calls using the traditional public switched telephone network is uncertain. State public utility commissions have issued rulings and various courts are in the process of reviewing the state actions. The FCC has initiated a public inquiry to investigate the migration of voice services to IP-based networks and gather public comment to help it develop an appropriate regulatory environment for these services. We cannot predict the ultimate outcome of these various federal, state and court proceedings, and thus the future regulatory classification of VoIP remains uncertain. VoIP does not account for a significant amount of our revenue, and we are generally only a reseller of VoIP services. Accordingly, we do not currently believe that any regulatory developments with respect to VoIP would have a significant impact on us.

Hosting

The hosting services that we currently provide in the United States and other foreign countries are generally not considered telecommunications service. However, regulations concerning data protection may be applicable. Our data center facilities are designed to ensure a secure environment in which customers locate mission critical networking hardware, which enables us to provide value-added hosting management and service options including server management, operating system management, colocation, hardware management, and space and environmental provisioning. As in the United States, in most countries, hosting is a relatively new product offering and therefore, in general, communications regulations do not specifically address it, but may do so in the future.

Future Regulatory Developments

We do not currently anticipate the erection of any significant barriers or imposition of significant costs that would prevent us from obtaining the requisite authorizations in any of our principal markets. However, we cannot guarantee that governments will not institute laws and regulations that may affect the provision of these services and/or increase our costs for providing them. For example, an increasing number of countries continue to strengthen their national anti-terrorism laws as well as increasing the protection of national infrastructures. Measures include modification to the framework for legal interception, access to preserved or retained data, and in the case of some countries, proposals to extend retention periods for law enforcement purposes. Any impact on our provision of services will depend on any new laws or regulations that are imposed.

In addition, our business relies on customer access, interconnection services and leased lines supplied by other carriers. Changes to government laws and policies related to these services, including charges to access other supplier's networks and charges that may be imposed to fund public programs, such as universal service, could have an impact on some of our services.

U.S. Regulatory Matters

With the exception of our private line service, our existing managed network, Internet access, managed voice and hosting services are generally not regulated by the FCC or any other government agency of the United States or public utility commissions of the individual states, other than regulations that apply to businesses generally.

Federal Regulatory Matters

The United States Communications Act of 1934, or the Telecommunications Act, regulates the provision of "telecommunications services" and specifically exempts "information services" from its regulation. Under the Telecommunications Act, "information services" are defined as "the offering of a capability for generating, acquiring, storing, transforming, processing, retrieving, utilizing, or making available information via telecommunications." Services may have components of both "telecommunications" and "information," and the FCC has identified such services as "hybrids." The FCC has determined that certain hybrid services are exempt from federal regulation and will be treated like information services. Excluding our private line service, we believe that the products and services we offer, whether on a facilities or resale basis, generally qualify as information services as defined by the Telecommunications Act or exempt hybrid services as classified by the FCC and are not subject to federal regulation.

There is some uncertainty at the FCC and in the courts regarding the distinction between information and telecommunications services. For instance, at least one federal appeals court has found that when an Internet Service Provider (ISP) owns the transmission facilities, it provides telecommunications services and is subject to FCC regulation. In response partially to that decision, the FCC has taken a number of steps to address the regulatory status of access to the Internet over cable and other facilities. Accordingly, the FCC and the courts continue to consider whether or not facilities-based providers of Internet access services should be required to unbundle the "information" portion from the "telecommunications" portion of their services. If the FCC adopts such a requirement, all facilities-based ISPs could be required to contribute to the federal universe service fund (USF) based on revenues derived from providing the telecommunications services underlying the provision of their information service offerings. To the extent that we elect to become or are deemed to be a facilities-based ISP, we could be required to make these USF contributions.

In addition, there are numerous proceedings pending before the FCC regarding the appropriate regulatory classification of broadband Internet access services, and other IP enabled services. Although the FCC has tentatively concluded that broadband wireline Internet access services are "information services," under the Telecommunications Act, there is no guarantee that the FCC will adopt this tentative conclusion or that the FCC will not impose regulatory obligations on providers of broadband Internet access services, such as USF contribution requirements. Even if the tentative conclusion is adopted, it is unclear what effect such a ruling would have on the regulatory classification of our data networking services.

Furthermore, advancements in technology are increasingly narrowing the distinctions, from a customer's perspective, between traditional or basic telecommunications services and Internet protocol or Internet-based services with respect to voice, and this may also lead regulators to reassess their treatment of such services. The FCC previously concluded that some of the services currently offered over the Internet, such as phone-to-phone IP telephone services, may be functionally indistinguishable from traditional telecommunications service offering and that their regulatory status should be reviewed.

In 2003, a number of state public utility commissions (PUCs) instructed providers of VoIP services to apply for and obtain state authorizations. In response, a number of these providers filed suit claiming that the FCC has exclusive jurisdiction in this area. Providers also petitioned the FCC requesting a ruling on the jurisdiction questions related to VoIP services. In 2004, the FCC issued an order stating that VoIP was within the exclusive jurisdiction of the FCC. Courts reviewing the original appeals of state PUC decisions have cited this order in upholding court orders preventing state PUCs from enforcing their rules. Some state PUCs have announced their plans to appeal this FCC decision.

The FCC has also initiated a public inquiry to gather information regarding the migration of voice services to IP-based networks and gather public comment to help it develop an appropriate regulatory environment for these services. We cannot predict the ultimate outcome of these various federal, state, and court proceedings, and thus the future regulatory classification of VoIP remains uncertain. There is some risk, therefore, that our VoIP services could be subject to regulation, including requirements to make USF contributions, and that those services could be treated similarly to voice services provided over conventional circuit-switched network facilities for purposes of making payments to local telephone companies for origination and termination of call and for other purposes.

Our interstate private line services are governed by Title II of the Communications Act of 1934, as amended by the Telecommunications Act, which establishes the regulatory requirements for common carriers involved in interstate or international communications by wire. We hold the required licenses to provide our interstate and international common carrier telecommunications services on both a facilities and leased basis. Additionally, we are obligated to make USF contributions based on the revenue from the the interstate and international portions of the private line services. We do not currently believe that we are subject to the jurisdiction of individual state regulatory authorities.

State Regulatory Matters

Intrastate telecommunications services are subject to regulation by the relevant state PUC and may be subject to licensing requirements, tariffs, and/or subsidy mechanisms. States also regulate telecommunications services through certification of providers of intrastate services, regulation of intrastate rates and services offering, and other regulations. Under the Telecommunications Act, states retain jurisdiction to adopt regulations necessary to preserve universal services, protect public safety and welfare, ensure the continued quality of communications services and safeguard the rights of consumers.

Because we bundle our data transmission services with information services, we do not believe our managed IP, Internet access and hosting services are regulated at the state level for similar reasons that our services are not regulated by the FCC. However, there is little guidance on the regulation of hybrid services at the state level, and there is some risk that our services could be subject to state regulation in the future.

In addition, we do not believe that our private line services are subject to state authorizations. However, as noted above under "Federal Regulatory Matters," states are beginning to review the provision of VoIP, including support for E911 service capability, and it is unclear whether our services could be subject to state regulation in the future. See "Regulation—U.S. Regulatory Matters—Federal Regulatory Matters."

Future Federal and State Developments

With the exceptions discussed above, we believe that the majority of our services are not currently subject to state or FCC licensing, reporting or USF obligations. However, various communications services and technologies are currently the subject of judicial proceedings, legislative hearings, and administrative actions which could change, in varying degrees, the manner in which the telecommunications industry as well as ISPs operate. We cannot predict the outcome of these proceedings, or the impact they may have on the telecommunications or information services industries generally, or on us particularly. In addition, we cannot guarantee that future legislative, regulatory or judicial changes in the United States or other countries in which we operate will not have a material adverse impact on our business. To the extent that future regulatory licenses or permissions are necessary or useful for us to provide our services, we currently expect that we would obtain those licenses and permissions and do not currently believe that such applications would be denied or we would face processing delays that will have a material adverse effect on us. Moreover, if new laws or regulations are imposed on our industry, or existing regulations are extended to cover our specific services, we expect these regulations to apply to all similarly situated parties offering comparable services, including our competitors.

International Regulatory Matters

International Operations and Authorizations

Our principal markets outside the United States include the European Union and the Asia Pacific Rim. We have network operational centers in the United Kingdom, Japan and Singapore. As is true in the United States, the market for our services in each of the major economies within these regions are open to foreign competition. We believe that we are authorized to provide our services under the applicable regulations in all countries where we derive substantial business. In certain countries throughout Asia, Latin America, the Middle East and Africa, regulatory and market access barriers, including foreign ownership limitations and entrenched monopolies, continue to prevent us from providing services directly to customers. As our business plan does not contemplate our selling a significant amount of services in any of these countries in the near term, we do not believe that our inability to offer services directly to customers in these countries will impact us significantly. Nevertheless, in many of the highly regulated countries in these regions, we partner with local providers to provide certain services indirectly to our customers.

European Union

The European Union (EU) adopted measures designed to liberalize the telecommunications networks and services of its member countries in 1998, and in 2003, the EU's eCommunications Regulatory Framework became effective. As required, EU members are in the process or have incorporated these principles into their respective domestic legal frameworks.

The EU has also adopted a series of directives extending telecommunication regulation to electronic communications networks and services, including the Internet. For example, Directive 2000/31/EC provides that network services providers are generally exempt from liability for the content transmitted on their networks and for caching and hosting activities, subject to certain conditions. This directive also states that service providers shall not have a general obligation to monitor content. Directive 2002/58/EC obligates network service providers to implement security measures and to discard customer data as soon as such data is no longer needed for billing. The EU Data Protection Directive imposes significant notice and access obligations on data controllers, which are entities that determine how personal information will be used and processed. Requirements for data processors are less stringent. Data processors may only use or process the data as specified by the controller, and they must implement measures to protect the data from loss, alteration or misuse. We believe that with respect to the services we provide our customers, we are a data processor and not a data controller and that we comply with the applicable data protection requirements.

While the EU directives were intended to harmonize regulations across Europe with respect to electronic communications networks and services, implementation among member countries has been inconsistent in some areas. Despite inconsistencies in implementation, the general trend appears to be toward removing most regulatory barriers throughout the region, which is beneficial to our business in Europe.

United Kingdom

Within the European Union, the United Kingdom is our largest single market. Our network operations center for our Europe, Middle East and Africa (EMEA) operations is based in London, as are the majority of our EMEA employees. In addition, we operate data centers in the United Kingdom. The United Kingdom has implemented key EU Directives through various regulations and acts. In 2003, the United Kingdom adopted a Communications Act that replaced the Telecommunications Act of 1984 and served to implement the EU liberalization regime. This act also created the Office of Communications, a single regulatory body, to oversee the entire electronic communications sector. In January 2004, the Office of Communications began a strategic review of the telecommunications sector in the United Kingdom, and the outcome of this review will be a statement setting forth its approach to telecommunications regulation. We hold a Telecommunications Services Class License in the United Kingdom that enables us to provide our services to our U.K. based customers.

Asia-Pacific Rim

Our two primary markets in the Asia-Pacific Rim are Japan and Southeast Asia, and we are authorized to provide our services in both areas. Additionally, we operate network operations centers in both Japan and Singapore and a data center in Tokyo.

Japan

Japan's Ministry of Internal Affairs & Communications partially amended its Telecommunications Business Law with the aim of deregulating the telecommunications marketplace. Effective in April 2004, the new law abolished the system of Type I and Type II Telecommunication businesses. Under the new law, we were required to obtain an authorization through a simplified registration or notification system. We received our authorization under the current scheme on December 1, 2004. The additional steps toward deregulation of the telecommunications sector should afford opportunities to new market entrants and increase competition for current players, which we expect will benefit providers relatively new to the market, such as ourselves.

Singapore

Once characterized as a monopoly, the telecommunications market in Singapore is now one of the most liberalized and competitive in the region. We hold a Service Based Operator (Individual and Class) License that enables us to provide our services directly to our customers.

Global Developments

The World Trade Organization (WTO) is the international organization responsible for global rules governing trade among nations. The Uruguay Round expanded the scope of the multilateral trading system to cover trade in services through the General Agreement on Trade in Services (GATS). One of the sectors covered under the GATS is telecommunications. In 1993, during the Uruguay Round, a number of countries made commitments to permit value-added services. In 1997, The WTO Basic Telecom Agreement was concluded under the framework established by the GATS. 70 WTO members made commitments with regard to basic telecommunications, including local and long distance and international services using both wireline and wireless technologies. Since that time, additional countries have made commitments with respect to basic services. In 2001, the WTO embarked on a new round of trade negotiations—the Doha Development Agenda. This round is not expected to be completed until sometime in 2005, at the earliest.

Despite enactment of the WTO Basic Telecom Agreement, regulatory obstacles continue to exist in a number of the countries that signed the agreement. Some of these countries made only limited commitments in terms of the services that they were willing to liberalize and the timeframe in which they were willing to do so. In addition, some less developed countries are not well prepared for competition or for effectively regulating a liberalized market, and gaining the requisite experience and expertise is likely to be a long and difficult process. Moreover, even in the more liberalized countries, difficulties remain including complicated licensing rules, foreign ownership limits, high fees and undeveloped competition and interconnection safeguards. Nevertheless, we believe that, overall, the WTO Basic Telecom Agreement, and its implementation by these countries, which account for the bulk of global telecommunications revenue, offers us significant opportunities to provide our services on a global basis.

Other Pertinent Regulatory Developments

The laws and regulations relating to the liability of network service providers continues to evolve in the United States and abroad as the use and popularity of the Internet and World Wide Web continues to grow. Accordingly, laws and regulations are being and will likely continue to be adopted at the federal, state, and local levels, as well as in the foreign countries in which we operate, governing such issues as content liability, privacy, consumer protection, child protection, intellectual property, libel, taxation, mass circulation of unsolicited e-mail, gambling, pornography, law enforcement and national security, among others. The implementation of any such legislation could result in direct or indirect regulation of service providers such as ourselves and we may be subject to litigation. In that case, it is likely that we would have to implement additional policies and procedures, and incur additional costs, designed to assure our compliance with the particular legislation and to defend against any claims, which costs could be material to our business.

INTELLECTUAL PROPERTY

We protect certain proprietary aspects of our business with a combination of patent, trademark, trade secret, copyright and other intellectual property laws, as well as with internal and external nondisclosure safeguards including confidentiality agreements and contractual restrictions and agreements. We actively seek to limit disclosure of our intellectual property by entering into confidentiality agreements with our employees and consultants and by restricting and controlling access to and distribution of our proprietary information, including our source code. Additionally, we require all employees and consultants to enter into invention assignment agreements with us.

We have a number of United States and international patents protecting aspects of our technology, and we are currently pursuing patent applications in the United States and internationally. We have registered trademarks for our business name and several product and service names and marketing slogans. In addition, we have applied for trademark protection for various products, services and marketing slogans. We have also registered various Internet domain names in connection with the SAVVIS public website. We do not hold any material licenses, franchises or concessions.

Although we consider our intellectual property rights to be valuable, we do not believe that we are materially dependent on any such rights.

EMPLOYEES

As of December 31, 2004, we employed 1,858 full-time persons, of which 1,444 were engaged in engineering, global operations and customer service; 236 in sales, sales support, product management, and marketing; and 178 in finance and administration. None of our employees are represented by a labor union. We believe our relationship with our employees is good.

AVAILABLE INFORMATION

Our Internet site is at http://www.savvis.net. We are not including the information contained on our website as part of, or incorporating it by reference into, this filing. We make available to the public on our website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such material is electronically filed with, or furnished to, the U.S. Securities and Exchange Commission.

RISKS RELATED TO OUR BUSINESS

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, set forth below are cautionary statements identifying important factors that could cause actual events or results to differ materially from any forward-looking statements made by or on behalf of us, whether oral or written. We wish to ensure that any forward-looking statements are accompanied by meaningful cautionary statements in order to maximize to the fullest extent possible the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the following important factors that could cause actual events or results to differ materially from our forward-looking statements.

A material reduction in revenue from either of our two largest customers, who combined represented approximately 20% of our revenues in 2004, would harm our financial results.

Reuters and Telerate combined accounted for approximately $122.0 million or 20% of our revenue in 2004 compared to $137.2 million or 54% of our revenue in 2003. This reduction from the prior year was primarily due to the increase in our customer base as a result of the acquisition of CWA, reduced pricing for certain of our services, and a reduction of service locations by Reuters and Telerate resulting from customer losses. While Reuters and Telerate are contractually bound to purchase our services, material defaults by us under the agreements or failure by us to maintain the service level commitments could lead to reductions in the amount of services they purchase and/or termination of the respective agreements. The service contracts with these customers also provide that a business downturn that negatively affects either Reuters or Telerate could also lead to a reduction of their respective obligations to purchase our services. In addition, Reuters is presently contractually bound to purchase network services from us only through September 2006. There can be no assurance that Reuters will continue to purchase services from us after that date.

Our revenue from Reuters was $78.0 million in 2004, $82.7 million in 2003 and $102.2 million in 2002. The decline in 2004 resulted from the termination of service locations by Reuters resulting from customer losses by Reuters and reduced pricing for certain of our services. In addition, Reuters owns a network services company that directly competes with us and that was formed to be Reuters preferred network partner. In October 2004, Reuters entered into discussions with an international telecommunications provider to secure a long-term agreement for the provision of network services and to divest its interest in the network company. Reuters could migrate material business from us to the network services company or to our competitors, which could materially reduce our revenues.

Our revenue from Telerate was $44.0 million in 2004, $54.4 million in 2003 and $70.3 million in 2002. This decline resulted from the termination of service locations by Telerate resulting from customer losses by Telerate and reduced pricing for certain of our services.

In December 2004, Reuters and Telerate signed a definitive agreement for Reuters to acquire Telerate. The consideration payable to Telerate includes all of the Series A Preferred Stock of our company owned by Reuters. We cannot predict at this time what effect this will have on our business if the acquisition is or is not completed.

The loss of either of these customers or a significant group of our other customers, or a considerable reduction in the amount of our services that either customer purchases or a significant group of our customers purchase, could materially reduce our revenues which, to the extent not offset by cost reductions or new customer additions, could materially reduce our cash flows and financial position. This may limit our ability to raise capital or fund our operations, working capital needs and capital expenditures in the future.

We expect to continue to incur net losses.

We incurred a net loss of $148.8 million in 2004, $94.0 million in 2003 and achieved net income of $13.9 million in 2002 due to one-time gains on the extinguishment of debt in the amount of $97.9 million. We had negative cash flows from operating activities of $26.8 million in 2004, $0.3 million in 2003 and $45.0 million in 2002. We expect to continue to incur net losses at least through 2006.

Our revenues and operating results are affected by a number of factors including the following:

- demand for and market acceptance of our network, hosting, media services, industry solutions, and professional services;
- increasing sales, marketing and other operating expenses;
- our ability to retain key employees that maintain relationships with our customers;
- the duration of the sales cycle for our services;
- the announcement or introduction of new or enhanced services by our competitors;
- acquisitions we may make;
- changes in the prices we pay for utilities, local access connections, Internet connectivity and longhaul backbone connections; and
- the timing and magnitude of capital expenditures, including costs relating to the expansion of operations, and of the replacement or upgrade of our hosting infrastructure.

Accordingly, we believe that period-to-period comparisons of our results of operations should not be relied upon as indications of future performance. In addition, these factors may affect our long-term viability.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

If we do not have sufficient cash flow from our operations, we may need to raise additional funds through equity or debt financings in order to meet our operating and capital needs. We may not be able to secure additional debt or equity financing on favorable terms, or at all, at the time when we need such funding. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. In addition, any debt financing that we may secure in the future could have restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, if we decide to raise funds through debt or convertible debt financings, we may be unable to meet our interest or principal payments.

We have experienced revenue losses from reductions in services by customers, price reductions on services and customer turnover in the past and may continue to do so in the future. If we continue to experience such revenue loss without a corresponding growth in new customers or services, our revenues would decrease.

Revenue loss occurs for several reasons, such as individual site reductions in customer networks, price reductions, voluntary termination by customers who choose to switch to a competing service and termination for nonpayment of bills or abuse of the network. We have experienced revenue loss in the past and as our customer base grows these revenue losses may continue or even increase. If, in the future, we were to lose a large number of customers or Reuters or Telerate without signing contracts with new customers, our revenues would decrease.

Our brand is not as well known as some of our competitors. Failure to develop brand recognition could hurt our ability to compete effectively.

We need to strengthen our brand awareness to realize our strategic and financial objectives. Many of our competitors have well-established brands associated with the provision of data networking, Internet access, hosting services, managed voice and digital content management services, and significantly larger budgets for brand promotion than we do. The promotion and enhancement of our brand also will depend in part on our success in continuing to provide high quality services. We cannot guarantee that we will be able to maintain or achieve these levels of quality.

Our failure to meet performance standards under our service level agreements could result in our customers terminating their relationship with us or our customers being entitled to receive service credits which could lead to reduced revenues.

We have service level agreements with substantially all of our customers in which we provide various guarantees regarding our levels of service. If we fail to provide the levels of service required by these agreements, our customers may be able to receive service credits for their accounts, as well as terminate their relationship with us. If we are unable to maintain performance standards and Reuters, Telerate or a significant number of other customers exercise these rights, our revenues could be materially reduced.

If we are unable to provide satisfactory and high quality customer services, customer satisfaction and demand for our services will suffer.

We believe that building strong relationships with our customers, as well as future growth in our sales, depends on our ability to provide our customers with customer support, training, consulting and maintenance when necessary. We have an in-house technical infrastructure group, customer service group and field solutions group that are responsible for the delivery of services to our customers. If we are unable to provide customers with satisfactory and quality customer support, training, consulting, maintenance and other services, we could face customer dissatisfaction, damage to our reputation, decreased overall demand for our services and loss of revenue.

Our significant indebtedness could limit our ability to operate our business successfully.

We are highly leveraged. As of December 31, 2004, the total principal amount of our debt, including capital lease obligations, was $285.1 million. We expect our interest expense to be approximately $60.9 million and $67.9 million in 2005 and 2006, respectively, under our current financing. In order to finance our acquisition of the assets of CWA and to provide ongoing funding to its operations and capital expenditures, we issued $200.0 million in Series A Subordinated Notes in February 2004 that accrued interest at the rate of 12.5% until February 3, 2005, and thereafter at 15%. Interest accrues on a non-cash basis and is payable semi-annually in kind. The notes are due on January 30, 2009. In addition, our agreement with General Electric Capital Corporation (GECC) bears interest at the rate of 9% until September 2005, at which time it increases to 12%. As of December 31, 2004, our outstanding obligation under this agreement is $53.7 million. Our GECC and capital lease obligations require monthly cash payments for interest. Our GECC obligation matures in 2007 and our capital lease obligations have a fifteen year maturity. Our level of indebtedness increases the possibility that we may not generate cash sufficient to pay, when due, interest on or other amounts due in respect of our indebtedness. If we do not have sufficient cash available to repay our debt obligations when they mature, we will have to refinance such obligations, and there can be no assurance that we will be successful in such refinancing or that the terms of any refinancing will be acceptable to us. The amount of our debt also means that we must dedicate a substantial portion of our cash flows from operations to the payment of our indebtedness, reducing the funds available for operations, working capital, capital expenditures, acquisitions, and general corporate or other purposes. Our cash debt service obligation for our existing debt as of December 31, 2004, is $15.3 million in 2005 and $16.9 million in 2006.

Our rapid growth and expansion may strain our resources.

Due to our acquisition of CWA, we experienced rapid growth. This rapid growth placed, and may continue to place, a significant strain on our operating and financial resources. Our future performance will partly depend on our ability to manage our growth effectively, which will require that we further develop our operating and financial system capabilities and controls. We have invested and intend to continue to invest significant amounts in billing systems, operational systems, customer service systems and financial systems.

We may make acquisitions or enter into joint ventures or strategic alliances, each of which is accompanied by inherent risks. Additionally, we have acquired the assets of and assumed the customers of several businesses which may continue to pose inherent risks to our business.

If appropriate opportunities present themselves, we may make acquisitions or investments or enter into joint ventures or strategic alliances with other companies. Risks commonly encountered in such transactions include:

- the difficulty of assimilating the operations and personnel of the combined companies;
- the risk that we may not be able to integrate the acquired services, products or technologies with our current services, products and technologies;
- the potential disruption of our ongoing business;
- the diversion of management attention from our existing business;
- the inability to retain key technical and managerial personnel;
- the inability of management to maximize our financial and strategic position through the successful integration of acquired businesses;
- increases in reported losses as a result of charges for in-process research and development and the amortization other intangible assets;
- difficulty in maintaining controls, procedures and policies;

- the impairment of relationships with employees, suppliers and customers as a result of any integration;
- losses of acquired base of customers and accompanying revenue; and
- the assumption of leased facilities, or other long-term commitments that could have a material adverse impact on our profitability and cash flow.

If we fail to maintain an effective system of internal controls, we may not be able to report our financial results accurately and our management may not be able to report that our internal controls over financial reporting are effective, which could harm our operating results.

We have devoted significant resources to comply with the new internal control over financial reporting requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires that we annually furnish an internal controls report of our management's assessment of the effectiveness of our internal controls and our auditors are required to attest to, and report on, our assessment. In addition, effective internal controls are necessary for us to provide reliable and accurate financial reports and effectively prevent fraud. We expect these systems and controls to become increasingly complex to the extent that we integrate acquisitions and our business grows. To manage this growth effectively, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. We cannot be certain that these measures will ensure that we design, implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation or operation, could harm our operating results or cause management to be unable to report that our internal controls over financial reporting are effective.

We may be liable for the material that content providers distribute over our network.

The law relating to the liability of private network operators for information carried on or disseminated through their networks is currently unsettled. We may become subject to legal claims relating to the content disseminated on our network. For example, lawsuits may be brought against us claiming that material on our network on which one of our customers relied was inaccurate. Claims could also involve matters such as defamation, invasion of privacy and copyright infringement. Content providers operating private networks have been sued in the past, sometimes successfully, based on the content of material. If we need to take costly measures to reduce our exposure to these risks, or are required to defend ourselves against such claims, our financial results could be negatively affected.

Failures in our network, including any breach of security, could disrupt our ability to provide our services, increase our capital costs, result in a loss of customers or otherwise negatively affect our business.

Our ability to implement our business plan successfully depends upon our ability to provide high quality, reliable services. Interruptions in our ability to provide our services to our customers, through the occurrence of a natural disaster or other unanticipated problem, could adversely affect our business and reputation. For example, problems at one or more of our data center facilities could result in service interruptions or significant equipment damage. In addition, our network could be subject to unauthorized access, computer viruses, and other disruptive problems caused by customers, employees, or others. Unauthorized access, computer viruses or other disruptive problems could lead to interruptions, delays or cessation of service to our customers. Unauthorized access could also potentially jeopardize the security of confidential information of our customers or our customers' end-users, which might expose us to liability and also deter potential customers. We may be unable to implement disaster recovery or security measures in a timely manner or, if and when implemented, these measures could be circumvented through the reoccurrence of a natural disaster or other unanticipated problem, or as a result of accidental or intentional actions. Resolving network failures or alleviating security problems may also require interruptions, delays or cessation of service to our customers. Accordingly, problems at our data centers, network interruptions or breaches of security on our network may result in liability, a loss of customers and damage to our reputation.

We are dependent on our key personnel and our ability to recruit, train and retain these professionals.

Our current and planned operations depend on our ability to identify, hire, train and retain IT professionals, technical engineers, operations employees, sales and senior management personnel who maintain relationships with our customers and who can provide the technical, strategic and marketing skills required for our company to grow. There is a shortage of qualified personnel in these fields, and we compete with other companies for this limited pool of these personnel. There is no assurance that we will be able to recruit or retain such personnel, and the loss of our key personnel could be disruptive, which could cause our operations and financial results to be negatively impacted.

We are exposed to movements in foreign currency exchange rates.

We provide our services in a number of countries throughout the world, and as a result, are exposed to movements in foreign currency exchange rates. We have foreign exchange risk related to our foreign operations to the extent that revenues in foreign currencies do not offset expenses in the same currencies. We incur approximately 12% of our costs in countries outside of the United States that are in excess of revenues billed in those countries. In the future, we may engage in hedging transactions to mitigate foreign exchange risk. In terms of foreign currency translation risk, we are exposed primarily to the Euro and the British pound.

RISKS RELATED TO OUR INDUSTRY

The markets for our network, hosting, digital content management/media services, industry solutions, and professional services are highly competitive, and we may not be able to compete effectively.

The markets for our network, hosting, digital content management/media services, industry solutions, and professional services are extremely competitive, and there are few significant barriers to entry. We expect that competition will intensify in the future, and we may not have the financial resources, technical expertise, sales and marketing abilities or support capabilities to compete successfully in these markets. Many of our current and potential competitors have longer operating histories, greater name recognition, access to larger customer bases and greater market presence, engineering and marketing capabilities and financial, technological and personnel resources than we do. As a result, as compared to us, our competitors may:

- develop and expand their networking infrastructures and service offerings more efficiently or more quickly;
- adapt more rapidly to new or emerging technologies and changes in customer requirements;
- take advantage of acquisitions and other opportunities more effectively;
- develop products and services that are superior to ours or have greater market acceptance;
- adopt more aggressive pricing policies and devote greater resources to the promotion, marketing, sale, research and development of their products and services;
- make more attractive offers to our existing and potential employees;
- establish cooperative relationships with each other or with third parties; and
- more effectively take advantage of existing relationships with customers or exploit a more widely recognized brand name to market and sell their services.

Examples of our competitors in the traditional telecommunications companies' category include AT&T Corp., Equant N.V., MCI, Inc., Qwest Communications International Inc., and Sprint Corporation. Our competitors in hosting services are Equinix, Inc. and Internap Network Services Corporation. Large-scale systems integration companies competing with our services include IBM® and Electronic Data Systems Corporation (EDS).

We may have to compete with an increased number of competitors.

We expect that new competitors will enter the data networking, Internet access and hosting markets. Such new competitors could include computer hardware, software, media and other technology and telecommunications companies, as well as satellite and cable companies. A number of telecommunications companies and online service providers currently offer, or have announced plans to offer or expand, their data networking services. Further, the ability of some of these potential competitors to bundle other services and products with their data networking services could place us at a competitive disadvantage. Various companies are also exploring the possibility of providing, or are currently providing, high-speed data services using alternative delivery methods, including the cable television infrastructure, direct broadcast satellites, all optical networks, gigabit ethernet, wireless cable and wireless local access. In addition, Internet backbone providers may benefit from technological developments, such as improved router technology that will enhance the quality of their services. Because we purchase telecommunications services from local competitors, this may result in decreased local competition and increased our costs for local telecommunications services and thus increase prices to our customers.

Our failure to achieve desired price levels could impact our ability to achieve profitability or positive cash flow.

We have experienced and expect to continue to experience pricing pressure in the markets we serve. Prices for IP VPNs and Internet access and services have decreased significantly in recent years, and we expect significant price declines in the future. In addition, by bundling their services and reducing the overall cost of their services, telecommunications companies that compete with us may be able to provide customers with reduced communications costs in connection with their data networking, Internet access or hosting services, thereby significantly increasing pricing pressure on us. We may not be able to offset the *effects of any such price reductions even with an increase in the number of our customers, higher revenues from enhanced* services, cost reductions or otherwise. In addition, we believe that the data networking and VPNs and Internet access and hosting industries are likely to continue to encounter consolidation and greater efficiencies as a result in the future. Increased price competition or consolidation in these markets could result in erosion of our revenues and operating margins and could prevent us from becoming profitable.

Consolidation in the telecommunications industry may impede our ability to compete effectively.

In recent months, several telecommunication companies have announced planned mergers with other telecommunication companies, including the planned mergers of SBC Communications Inc. and AT&T Corp. and Verizon Communications, Inc. and MCI, Inc. If consolidation in the telecommunications industry continues, there will be fewer companies competing in this market, changing the nature of the market and possibly causing us to pay higher prices for the services that we receive from these companies. For example, large telecommunication companies, such as AT&T Corp., buy access lines in bulk from regional telecommunication companies and resell these to carriers such as us at discounted rates. If consolidation in the industry continues, there will be fewer service providers and this may cause us to have to pay higher prices for access lines, which may impede our ability to compete effectively.

New technologies could displace our services or render them obsolete.

New technologies or industry standards have the potential to replace or provide lower cost alternatives to our Internet access services, data networking and hosting services. The adoption of such new technologies or industry standards could render these services obsolete or unmarketable. For example, these services rely on the continued widespread commercial use of the set of protocols, services and applications for linking computers known as Internet protocol. Alternative sets of protocols, services and applications for linking computers could emerge and become widely adopted. For example, improvements in Internet protocol to allow for the assignment of priorities to data packets in order to ensure their delivery in the manner customers prefer would eliminate one advantage of the Asynchronous Transfer Mode (ATM) architecture of our network. We cannot guarantee that we will be able to identify new service opportunities successfully and develop and bring new products and services to market in a timely and cost-effective manner, or that products software and services or technologies developed by others will not render our current and future services non-competitive or obsolete. In addition, we cannot guarantee that our current and future services will achieve or sustain market acceptance or be able to address effectively the compatibility and interoperability issues raised by technological changes or new industry standards. If we fail to anticipate the emergence of, or obtain access to a new technology or industry standard, we may incur increased costs if we seek to use those technologies and standards, or our competitors that use such technologies and standards may use them more cost-effectively than we do.

The data networking and Internet access industries are highly regulated in many of the countries in which we plan to provide services, which could restrict our ability to conduct business internationally.

We are subject to varying degrees of regulation in each of the jurisdictions in which we provide services. Local laws and regulations, and their interpretation and enforcement, differ significantly among those jurisdictions. Future regulatory, judicial and legislative changes may have a material adverse effect on our ability to deliver services within various jurisdictions. National regulatory frameworks that are consistent with the policies and requirements of the World Trade Organization have only recently been, or are still being put in place in many countries. Accordingly, many countries are still in the early stages of providing for and adapting to a liberalized telecommunications market. As a result, in these markets we may encounter more protracted and difficult procedures to obtain licenses and negotiate interconnection agreements. In addition, many countries have attempted to regulate Internet telephony and voice-over-Internet protocol (collectively, VoIP) as they do traditional basic telephony and the European Union has taken a more restrictive view on these services than the United States. Within the United States, various proceedings at the state and federal level are underway to address how to classify this emerging technology. Specifically, VoIP communications which meet certain conditions could be regarded as voice telephony and subject to regulation given E911 regulatory requirements. Such policies may complicate or delay efforts we may wish to undertake to roll out VoIP services globally.

Our operations are dependent on licenses and authorizations from governmental authorities in most of the foreign jurisdictions in which we operate or plan to operate and, with respect to a limited number of our services, in the United States. These licenses and authorizations generally will contain clauses pursuant to which we may be fined or our license may be revoked on short notice. Consequently, we may not be able to obtain or retain the licenses necessary for our operations.

RISKS RELATED TO OUR COMMON STOCK

We are controlled by parties whose interests may not be aligned with yours.

Investment partnerships sponsored by Welsh, Carson, Anderson & Stowe (Welsh Carson) own approximately 57% of our outstanding voting stock as of December 31, 2004. In addition, these investment partnerships currently have the right to appoint half of the members of our Board of Directors pursuant to an Investors Rights Agreement among us and certain of our stockholders. During 2002, in order to obtain additional funding for our operations and to complete our debt restructuring, we issued $203.1 million of our 11.5% Series A convertible preferred stock (Series A Preferred), including $139.8 million to investment partnerships sponsored by, and individuals affiliated with Welsh Carson. The Series A Preferred accrues dividends at the rate of 11.5% annum on the outstanding accreted value thereof and these accrued but unpaid dividends are added to the outstanding accreted value quarterly. The Series A Preferred is convertible into such number of our common stock equal to the outstanding accreted value divided by the conversion price of $0.75, and votes with our common stock on an as-converted basis. As of December 31, 2004, the accreted value of Welsh Carson Series A Preferred was $190.1 million, which was convertible into approximately 253.4 million shares of common stock. As of December 31, 2004, including outstanding common stock of approximately 57.2 million, investment partnerships sponsored by Welsh Carson had outstanding voting stock representing a total of approximately 310.7 million votes. In 2004, in order to fund our acquisition of CWA, we issued $200.0 million of our Series A Subordinated Notes. As of December 31, 2004, investment partnerships sponsored by Welsh Carson held approximately $127.5 million of these Notes. Both the Series A Subordinated Notes and Series A Preferred contain provisions relating to a change of control of our Company. These factors, among others, could result in decisions concerning our operations or financial structure that may present conflicts of interest between Welsh Carson and its affiliates and our other common stockholders.

There may not be an active, liquid market for our common stock.

There is no guarantee that an active trading market for our common stock will be maintained on the Nasdaq Stock Market's SmallCap Market. The Nasdaq Stock Market may delist our stock from the SmallCap Market if we fail to meet its listing requirements, such as the requirement to maintain a minimum bid price of $1.00 or more. On February 7, 2005, the closing bid price of our common stock was $0.94. If our closing bid price is under $1.00 for thirty consecutive days, we may be delisted. If trading in our stock is not active, investors may not be able to sell their shares quickly or at the latest market price.

We may effect a reverse stock split to avoid our common stock being delisted from the Nasdaq Smallcap Market.

In the event our common stock trades below $1.00 for thirty consecutive days, Nasdaq could notify us that it intends to delist our stock from the Nasdaq SmallCap Market, unless our common stock achieved a closing bid price of $1.00 per share for ten consecutive trading days by a specified date. If we receive such a notice from Nasdaq, we may effect a reverse stock split in order to avoid being delisted from the Nasdaq SmallCap Market. However, while we expect that the resulting reduction in our outstanding shares of common stock will increase the market price of our common stock, we cannot assure you that the reverse stock split will increase the market price of our common stock by a multiple equal to the number of pre-split shares in the reverse split ratio, or result in any permanent increase in the market price. In some cases the stock price of companies that have effected reverse stock splits has subsequently declined back to pre-reverse split levels. A reverse stock split is often viewed negatively by the market and, consequently, could lead to a decrease in our overall market capitalization

Sales of a significant amount of our common stock in the public market could reduce our stock price and impair our ability to raise funds in new stock offerings.

We have approximately 180.5 million shares of common stock outstanding as of February 24, 2005, of which approximately 65.5 million represent shares of common stock issued upon conversion of our Series B Convertible Preferred Stock that we issued in connection with the financing of our CWA acquisition. The common stock issued upon conversion of our Series B Preferred Stock was not registered under the Securities Act of 1993, as amended (Securities Act), but we granted the holders of these securities certain demand and piggy-back registration rights. Approximately 42.9 million shares of our outstanding shares of common stock represent shares distributed by the administrator of the Bridge estate to its secured creditors in August 2004, all of which are freely tradable. Moreover, we issued approximately 4.4 million shares of our common stock in 2004 in connection with our acquisition of the assets of WAMINET. In addition, as of December 31, 2004, we have approximately 366.9 million common shares issuable pursuant to the conversion of our Series A Preferred and approximately 13.1 million shares of common stock issuable pursuant to the exercise of outstanding warrants. The holders of our Series A Preferred and warrants are also entitled to certain registration rights. Sales of substantial amounts of shares of our common stock in the public market, or the perception that those sales will occur, could cause the market price of our common stock to decline. Those sales also might make it more difficult for us to sell equity and equity-related securities in the future at a time and at a price that we consider appropriate.

Our stock price is subject to significant volatility.

Since January 2004 until the present, the price per share of our common stock has ranged from a high of $4.40 per share to a low of $0.76 per share. Our stock price has been and may continue to be subject to significant volatility due to sales of our securities by significant shareholders and the other risks and uncertainties described in this Form 10-K. The price of our common stock may also fluctuate due to conditions in the technology industry or in the financial markets generally.

Our certificate of incorporation, bylaws and Delaware law contain provisions that could discourage a takeover.

Our certificate of incorporation and Delaware law contain provisions which may make it more difficult for a third party to acquire us, including provisions that give the board of directors the power to issue shares of preferred stock.

We have also chosen to be subject to Section 203 of the Delaware General Corporation Law, which, subject to certain exceptions, prevents a stockholder of more than 15% of a company's voting stock from entering into business combinations set forth under Section 203 with that company.

ITEM 2. PROPERTIES

We lease approximately 156,000 square feet of office space for our corporate headquarters in Town & Country, Missouri, outside of St. Louis, Missouri, which lease term expires in 2017. Excluding this office, we lease approximately 2.52 million square feet of facilities for our sales and administrative offices, network equipment and data centers in multiple metropolitan areas in the United States. In addition, we lease approximately 144,000 square feet of facilities in Europe and Asia.

We believe that our existing facilities are adequate for our current needs and that suitable additional or alternative space will be available in the future on commercially reasonable terms as needed.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various legal proceedings and actions arising in the normal course of our business. While the results of such proceedings and actions cannot be predicted, management believes, based on facts known to management today, that the ultimate outcome of such proceedings and actions will not have a material adverse effect on our financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On October 29, 2004, the holders of shares of our capital stock representing a majority of our then outstanding voting power by written consent without a meeting (i) authorized the issuance of shares of common stock underlying shares of our Series B Convertible Preferred Stock that we issued upon the exercise of warrants that were issued in connection with our acquisition of CWA, and (ii) approved an amendment to our amended and restated certificate of incorporation to change our corporate name to "SAVVIS, Inc." This stockholder written consent was signed by the holders of 17,670,858 of the 114,335,178 outstanding shares of our common stock as of October 11, 2004 (Record Date), and by the holders of 153,332 of the 202,490 outstanding shares of our Series A Convertible Preferred Stock as of the Record Date, representing an aggregate of 288,032,082 votes.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock, $0.01 par value per share, is traded on the Nasdaq SmallCap Market under the symbol SVVS. Prior to June 24, 2002, our common stock was traded on the Nasdaq National Market. The following table lists, on a per share basis for the periods indicated, the high and low closing sale prices for the common stock as reported by Nasdaq.

QUARTER ENDED	HIGH	LOW
March 31, 2004	$3.95	$1.47
June 30, 2004	2.63	1.27
September 30, 2004	1.51	1.00
December 31, 2004	1.35	0.85
March 31, 2003	$0.52	$0.39
June 30, 2003	0.95	0.40
September 30, 2003	1.65	0.90
December 31, 2003	1.69	1.14

As of February 24, 2005, there were approximately 1,096 holders of record of our common stock.

We have not declared or paid any cash dividends on our common stock since our inception. We do not intend to pay cash dividends on our common stock in the foreseeable future. We anticipate we will retain any earnings for use in our operations and the expansion of our business. In addition, we are restricted from paying dividends by the terms of our financing arrangements.

For information regarding securities authorized for issuance under equity compensation plans, see "Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with, and are qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this report. The data for the years ended December 31, 2004, 2003, and 2002 and as of December 31, 2004 and 2003 are derived from our consolidated financial statements included elsewhere in this report. The data for the years ended December 31, 2001 and 2000 and as of December 31, 2002, 2001, and 2000 are derived from audited consolidated financial statements not included in this filing.

	FOR THE YEAR ENDED DECEMBER 31,				
(in thousands, except per share amounts)	2004[4]	2003	2002	2001	2000
Statement of operations data					
Total revenues	$ 616,823	$252,871	$236,004	$ 242,795	$ 186,324
Loss from operations	(96,449)	(86,577)	(70,152)	(263,675)	(160,649)
Income/(loss) from operations before cumulative effect of change in accounting principle[1]	(148,798)	(94,033)	16,704	(288,896)	(164,851)
Cumulative effect of change in accounting principle[2]	—	—	(2,772)	—	—
Basic and diluted loss per common share before cumulative effect of change in accounting principle[1][3]	$ (1.64)	$ (1.34)	$ (0.62)	$ (3.10)	$ (1.89)
Cumulative effect of change in accounting principle[2]	—	—	(0.03)	—	—
Basic and diluted loss per common share[1][2][3]	$ (1.64)	$ (1.34)	$ (0.65)	$ (3.10)	$ (1.89)
Other financial data					
Net cash used in operating activities	$ (26,757)	$ (285)	$ (44,968)	$ (41,906)	$ (79,800)
Net cash provided by/(used in) investing activities	(146,137)	13,058	(5,669)	(24,085)	(153,193)
Net cash provided by/(used in) financing activities	$ 199,467	$ (15,799)	$ 70,616	$ 48,204	$ 262,835

	DECEMBER 31,				
(in thousands, except per share amounts)	2004	2003	2002	2001	2000
Balance sheet data					
Total assets	$ 406,250	$124,623	$196,474	$ 255,784	$ 438,622
Long-term debt	171,051	—	—	170,403	100,084
Capital lease obligations	114,034	56,902	65,149	65,775	76,436
Other long-term obligations	68,606	19,248	10,411	19,634	9,146

(1) Includes gains on extinguishment of debt in the amount of $97.9 million for the year ended 2002 resulting from our recapitalization in March 2002 and a settlement we negotiated in November 2002.

(2) Reflects a goodwill impairment charge of $2.8 million taken in the first quarter of 2002.

(3) As the effects of including the incremental shares associated with options, warrants, and convertible Series A Preferred Stock are antidilutive, they are not included in the diluted weighted average common shares outstanding.

(4) The significant increase in 2004 is a result of our acquisition of CWA on March 5, 2004.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION CONTAINS, IN ADDITION TO HISTORICAL INFORMATION, FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 THAT INVOLVE RISKS AND UNCERTAINTIES, INCLUDING THOSE SET FORTH IN THE "BUSINESS—RISK FACTORS" SECTION OF THIS REPORT. OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE RESULTS DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. YOU SHOULD READ THE FOLLOWING DISCUSSION TOGETHER WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES TO THOSE FINANCIAL STATEMENTS THAT ARE INCLUDED IN PART IV, ITEM 15 OF THIS FORM 10-K, BEGINNING ON PAGE 58 OF THIS REPORT.

EXECUTIVE SUMMARY

SAVVIS is a leading global provider of outsourced information technology services, delivering secure, reliable, and scalable hosting, network services, and digital content management. Our strategic approach combines the use of virtualization technology, a utility services model, and an automated software management and provisioning system. This allows customers to focus on their core business while we ensure the quality of their IT infrastructure.

Services

Although we operate in one operating segment separated by geographic location, the following briefly describes our services by revenue category:

Managed IP VPN

Our managed IP VPN include revenues primarily from our IP VPN, called Intelligent IP℠ networking, which is a high performance network platform for a client's managed voice, video, and data applications.

Hosting

Hosting revenues include revenues from our managed hosting solutions which combine hosting network, computing and storage services to provide customers with application platforms that deliver better performance, higher availability and lower total cost than found with traditional service provider models. In addition, it includes revenues from our security services, colocation, storage, monitoring and professional services.

Other Network Services

Our other network services are comprised of Internet access, managed voice services, private line services and layer-2 VPNs. These services can be purchased individually or in combination with our other services.

Digital Content Management

Revenues from digital content management, or media services, include our WAM!NET services, digital media services and Content Delivery Network (CDN) services. Our WAM!NET services are custom designed for the media industry and provide a shared-managed infrastructure tied to applications that streamline process and workflow around the creation, production and distribution of digital content. Our CDN services enable customers to distribute their web content easily, rapidly and reliably to end-users from a global network of servers located at the edge of the Internet.

Our industry solutions and professional services combine the services listed above, and revenues from these services are recorded in each of the categories of services above.

Business Trends

Our financial results continue to be affected primarily by competition in our industry. We expect competitive factors in our industry to continue to affect the prices for our services and our results of operations. Prices for telecommunication services, including the services we offer, have decreased significantly over the past several years, and we expect to continue to see decreases for the foreseeable future. To some extent, the impact of lower prices that we charge our customers has been offset by lower costs incurred by us to provide the service. Price pressure, however, varies by product, with unmanaged bandwidth services experiencing significant price pressure. In contrast, managed IP VPN services have enjoyed more stable pricing, and we believe these services will continue to maintain stability as we provide more value-added services to our customers.

We have also addressed industry-wide price competition and price decreases by broadening the range of services that we offer. In 2004, we began offering CDN services, colocation services, carrier wholesale services, consulting services, and an expanded portfolio of managed security services as a result of our acquisition of the assets of Cable & Wireless USA, Inc. and Cable & Wireless Internet Services, Inc. together with the assets of certain of their affiliates (Cable & Wireless America or CWA). We also introduced our suite of virtual utility managed services, our industry solutions services such as "Retail Avenue," a suite of IT solutions targeted at the retail industry, and managed utility applications, such as our Intelligent Messaging.

The addition of CWA's Internet Protocol (IP) network and CWA's hosting assets to our existing IP network and hosting business enabled us to expand the range of IP network services, consulting and infrastructure services that we could offer our customers.

In evaluating our financial results and the performance of our business, our management reviews our revenues, gross margin and operating income. In addition, management evaluates these indicators on a quarterly and annual basis in order to have a complete understanding of business trends.

Below is a quarterly and annual overview of these indicators:

(in thousands)	PRO FORMA[1] THREE MONTHS ENDED MARCH 31, 2004	THREE MONTHS ENDED MARCH 31, 2004	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED SEPTEMBER 30, 2004	THREE MONTHS ENDED DECEMBER 31, 2004	TWELVE MONTHS ENDED DECEMBER 31, 2004	TWELVE MONTHS ENDED DECEMBER 31, 2003
Revenue	$170,642	$108,135	$172,991	$169,389	$166,308	$616,823	$252,871
Gross Margin	39,738	29,928	43,912	49,573	55,447	178,860	89,265
Loss from Operations	(45,998)	(26,307)	(46,667)	(19,344)	(4,131)	(96,449)	(86,577)

(1) Results reported as if the CWA acquisition and related financing occurred on January 1, 2005.

Revenue

Historically, we have been heavily dependent on two of our largest customers, Reuters and Telerate. Together they comprised 50% of our revenue by the end of 2003. In addition to these customers, most of our remaining revenue came from our managed IP VPN services. However, after we acquired CWA in March 2004, our revenue profile changed dramatically. Reuters and Telerate were only 17% of our revenue for the fourth quarter ending December 31, 2004. Moreover, the acquisition increased our revenue from hosting services. Hosting services are now approximately twice our managed IP VPN revenue, comprising over 30% of our total revenue.

Our revenue grew by 144% compared with the year ended December 31, 2003. As discussed in more detail below, this growth is primarily attributed to revenue from the acquisition of CWA.

For the fourth quarter of 2004 our revenue decreased approximately 2% compared to the third quarter of 2004. This was primarily due to a decrease in revenues from Reuters and Telerate and revenues from content delivery network traffic. In the fourth quarter of 2004, Reuters announced that it was in discussions with a telecommunications provider to secure a long-term agreement for the provision of network services and to divest its interest in a network services company that directly competes with us and that was formed to be Reuters' preferred network partner. In the fourth quarter of 2004, Reuters also announced that it signed a definitive agreement to acquire Telerate for cash and all of the capital stock of our company owned by Reuters, which as of December 31, 2004 is approximately 14% of the outstanding voting stock. We cannot predict at this time what effect these possible transactions will have on our business if completed or if not completed. However, we expect our revenues from Reuters and Telerate to continue to decrease due to lower spending commitments under our contracts with them.

We plan to offset this decrease and increase our revenue through a number of initiatives, including:

- growing the number of people in our direct sales force and improving their productivity by increasing sales force automation and providing more sales support in terms of engineering and product expertise;
- pursuing alternative channels, such as developing partnerships with systems integrators, application service providers (ASPs), and competitive local exchange carriers (CLECs);
- reducing churn of our existing customer base as a result of disconnects and price erosion by implementing a number of specific campaigns to target "at risk" customers and minimize churn; and
- given our product breadth and extensive customer base, exploring opportunities to sell additional services to existing customers.

Gross Margin

Another indicator that we use to evaluate the business is gross margin. We define gross margin as total revenue less data communications and operations expenses. The improvement of the gross margin throughout 2004 reflects the efforts to rationalize the network operations and obtain synergies from the CWA acquisition.

Loss from Operations

Loss from operations for the year ended December 31, 2004 was $96.4 million compared to $86.6 million for the year ended 2003. This increase in our net loss is primarily due to $27.7 million in expenses incurred in the integration of CWA and a $16.7 million increase in depreciation, amortization and accretion expenses. We partially offset this increase by reducing a portion of our expenses during 2004 by achieving anticipated synergies through the integration of the CWA operations, including combining offices and eliminating redundancy within our operations. We expect our expenses to decrease as a percentage of revenues as we complete our integration of CWA. For example, integration expenses decreased from $3.7 million in the third quarter of 2004 to $1.9 million in the fourth quarter of 2004. We plan to continue to review and evaluate our business to identify operational efficiencies and to reduce costs in order to improve our cash flow and results of operations for the future.

CRITICAL ACCOUNTING POLICIES

We have identified the accounting policies below as critical to our business operations and to the understanding of our results of operations and financial position. For a detailed discussion on the application of these and other accounting policies, see Note 2 in the Notes to the Consolidated Financial Statements in Item 15 of this Annual Report on Form 10-K. Note that our preparation of this Annual Report on Form 10-K requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Valuation of Long-Lived Assets

Management evaluates the recoverability of our long-lived assets under the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 requires us to review for impairment our long-lived assets, whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable and exceeds its fair value.

Significant factors, which would trigger an impairment review, include the following:

- significant negative industry trends;
- significant changes in technology;
- significant underutilization of assets; and
- significant changes in how assets are used or are planned to be used.

When such an event occurs, management estimates the future cash flows expected to result from the use of the asset and its eventual disposition. These impairment evaluations involve estimates of asset useful lives and future cash flows. If the undiscounted expected future cash flows are less than the carrying amount of the asset and the carrying amount of the asset exceeds its fair value, an impairment loss is recognized. Management utilizes an expected present value technique, which uses a risk-free rate and multiple cash flow scenarios reflecting the range of possible outcomes, to estimate fair value of the asset. Actual useful lives and cash flows could differ from those estimated by management using these techniques, which could have a material effect on our results of operations and financial position.

There were no asset impairment charges in 2004 and 2003. We recognized asset impairment charges of $4.7 million in 2002 primarily related to equipment with carrying value above its estimated fair market value.

Intangibles

Management accounts for the identified intangible assets acquired in various transactions in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) and Statement of Accounting Standards No. 141, "Business Combinations" (SFAS 141). Our intangible assets were acquired through the WAMINET transaction or the CWA acquisition and, as such, were valued based on their estimated fair value relative to the estimated fair value of net assets received in these transactions. Identifiable intangible assets include: patents, customer relationships, software, and peering agreements. Useful lives of these specifically identified intangible assets are: eleven to fifteen years for patents; three to four years for customer relationships; five years for software and seven years for peering agreements. At December 31, 2004 and 2003, the identified intangible assets were $15.2 million and $4.9 million, respectively.

Revenue Recognition

Revenue consists primarily of revenue from managed IP VPN, hosting, other network services, and digital content management. Revenue is recognized when earned over the term of the related contract or as services are delivered. Installation fee revenue and the associated installation costs are deferred in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, "Revenue Recognition" (SAB 104). Such deferred revenue and costs are recognized into revenue and data communications and operations costs in the consolidated statements of operations on a straight-line basis over periods of approximately two years, the estimated average life of a customer contract. For all periods, any services billed and payments received in advance of providing services are deferred until the period such services are earned. Adjustments for estimated credits to be issued are recorded as a reduction in revenue and accounts receivable based on historical credits issued and known disputes.

Amounts paid by Reuters in 2003 that related to the buy-down of portions of their minimum revenue commitments have been accounted for as deferred revenue and are being recognized into revenue through September 2006, the remaining term of their network services agreement with us.

Allowance for Credits and Uncollectibles

We continuously monitor collections from our customers and maintain a provision for estimated credit losses based upon historical experience and specific customer information. Our policy for determining delinquent status is based on how recently payments have been received. An estimate of service credits to be issued is also maintained based on our historical experience and our knowledge of any specific service interruptions. As of December 31, 2004 and 2003, our allowance for credits and uncollectibles was $13.8 million and $3.0 million, respectively.

Stock-Based Compensation

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment," effective July 1, 2005, which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. As permitted by Statement 123, the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, only recognizes compensation cost for employee stock options to the extent that options have been issued below the fair market value of the underlying stock on the date of grant. Accordingly, the adoption of Statement 123's fair value method will have a significant impact on our result of operations, although it will have no impact on our overall financial position. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income and earnings per share in Note 2 to our consolidated financial statements.

Purchase Accounting for CWA Acquisition

We acquired CWA in March 2004. The fair value of acquired assets was determined with the assistance of valuation experts. The preliminary purchase price of $116.5 million was allocated to assets acquired and liabilities assumed based on the fair value of assets acquired. We also acquired significant liabilities requiring management to estimate the amount to ultimately be paid on these liabilities. The liabilities we assumed included adjustments to properly reflect the fair market value of long term facility leases ($12.3 million); the idle capacity related to a long-term IRU operations, maintenance and power contract ($16.3 million); the cost of leased facilities that will remain idle ($22.0 million); and the obligation to rehabilitate the long term lease spaces at varying lease termination dates ($16.7 million). Management utilized an expected present value technique which utilized our incremental borrowing rate and expected cash flow scenario to estimate the fair value of the liability. Actual cash flows could differ from those estimated by management, which could have a material effect on our results of operation and financial position.

Equity Instruments

Management valued the Series B Preferred Stock warrants as a convertible security. We utilized the services of an external valuation expert to ascertain the fair value of the Series B Preferred stock warrants. Determining the fair value of these instruments required the use of certain assumptions. If these assumptions differ from actual results, the valuation could be materially different.

Operating Leases

We have various operating leases for facilities and equipment. Equipment lease terms are approximately three years, and the facility leases range from three to twenty years. These facility leases include rent increases and, in certain cases, rent holidays. Any applicable rent increases or rent holidays are recorded on a straight-line basis over the initial lease term. Leasehold improvements are amortized over the shorter of the expected useful life or the initial lease term of the applicable lease. As of December 31, 2004, future minimum lease payments under these facility and equipment leases are approximately $443 million. Rent expense under operating leases for 2004, 2003, and 2002 was $48.3 million, $15.4 million, and $14.4 million, respectively.

Accounting for Income Taxes

We have provided a full valuation allowance on tax loss carry-forwards and other potential tax benefits according to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." As a result, to the extent that we realize those benefits in future periods, they will favorably affect net income. We have recorded a valuation allowance for the full amount of our net deferred tax assets because the future realization of the tax benefit is uncertain. At December 31, 2004, we had approximately $550.5 million in United States net operating loss carry-forwards expiring between 2011 and 2023, of which approximately $253.2 million is subject to the Section 382 limitation of the Internal Revenue Code.

SARBANES-OXLEY ACT OF 2002

Due to our acquisition of CWA on March 5, 2004, subsidiary system integration and data conversion activities are on-going. Since we have staged the system integration plan over a multi-year period, the integration of certain CWA systems were not expected to be and were not complete as of December 31, 2004. As permitted by the Securities and Exchange Commission in supplemental Frequently Asked Questions guidance, which allows for the exclusion of a significant acquisition during the year covered by a Section 404 attestation, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of CWA with respect to certain billing and circuit cost tracking systems acquired and the related revenue, accounts receivable, costs, and accounts payable. The CWA revenue and related accounts receivable included in our consolidated financial statements as of and for the year ended December 31, 2004 were approximately $261 million and approximately $28 million, respectively. The CWA circuit costs and associated accounts payable amounts included in our consolidated financial statements as of and for the year ended December 31, 2004 were approximately $59 million and approximately $2 million, respectively.

AGREEMENTS AND TRANSACTIONS

General Electric Capital Corporation Agreement

In August 2004, we amended the terms of our master lease agreement with General Electric Capital Corporation (GECC). Under the amended terms, we pre-paid $7.5 million and began cash interest payments in October, 2004. Under the amended terms, the interest rate was lowered from 12% to 9% for the first year after the prepayment and GECC modified certain covenants. We paid approximately $1.2 million of interest in the fourth quarter of 2004. The maturity date of the lease remains March 8, 2007.

Cable and Wireless Agreements

In January 2004, we signed a definitive agreement to purchase substantially all of the assets of CWA. CWA, wholly-owned by Cable & Wireless plc (PLC), provided a range of network and hosting services, including Internet access to a Tier 1 IP network, colocation, hosting and other value-added services such as managed security and content distribution. The transaction was approved by the U.S. Bankruptcy Court and other regulatory agencies and closed on March 5, 2004. The results of CWA are included in our results since the date of the acquisition.

The total purchase price for CWA consisted of $155.0 million in cash, the assumption of certain liabilities and leases for certain data centers and other facilities, and the funding of CWA's working capital losses from January 28, 2004, through March 5, 2004, which totaled $13.5 million. Additionally, at the closing of the CWA acquisition, we entered into an agreement to transfer our rights to acquire four of the CWA data centers and one office facility to Du Pont Fabros Interests LLC (Du Pont Fabros) for $52.0 million. These sums were paid directly to the CWA bankruptcy estate. We subsequently leased those facilities back from Du Pont Fabros for 15 years. As a result, the total cash cost of the CWA assets prior to the assumption of liabilities was $116.5 million.

In February 2004, we entered into a transition services agreement with PLC, to provide for the exchange of certain services between the parties over a twelve-month period from the acquisition date. The agreement defines the various services to be provided, the appropriate service levels and the associated pricing of those services for each party. The agreement provides for PLC to continue providing certain support and access to licensed software, the settlement of accounts receivable, and customer migration procedures. The agreement requires us to continue to allow PLC's use of the SAVVIS network during the transition period, until PLC's customers are fully migrated to an alternative network.

Reuters Agreements

On September 28, 2001, Reuters acquired a portion of the assets of Bridge. In connection with the asset acquisition, Reuters entered into a network services agreement with us, pursuant to which we agreed to provide continuing network services to the Bridge customers acquired by Reuters, as well as Internet access and colocation services, and Reuters agreed to purchase such services. The network services agreement provides that our network must perform in accordance with specific quality of service standards. In the event we do not meet the required quality of service levels, Reuters would be entitled to credits, and, in the event of a material breach of such quality of service levels, Reuters would be entitled to terminate the network services agreement. We are not aware of any current material breaches. We have recognized revenue of $78.0 million, $82.7 million, and $102.2 million during 2004, 2003, and 2002, respectively from Reuters under the network services agreement, as amended. Pursuant to the network services agreement, Reuters is obligated to purchase $26.1 million of services through September 30, 2005. Thereafter, Reuters will no longer have minimum purchase obligations from us under the contract, which expires September 2006.

As a result of the network services agreement, Reuters is our largest customer. The amount of receivables due from Reuters related to the network services agreement for the years ended December 31, 2004 and 2003 is not significant. In connection with the network services agreement, we also entered into a transitional services agreement with Reuters, pursuant to which Reuters has agreed to provide us with technical, administrative and other services pending establishment of our own capabilities.

On July 28, 2003, we entered into an agreement with Reuters whereby we sold our data center located in Hazelwood, Missouri, entered into a lease agreement for approximately one-third of the data center for five years with a five year renewal option, and allowed Reuters to buy-down a portion of its minimum revenue commitments under the existing network services agreement. Furthermore, under the arrangement, Reuters agreed to purchase new services from us which may be required in the future by Reuters but not originally contemplated under the network services agreement provided our bid to provide such service proposes terms equivalent to competing bids, material service level breaches by us have not repeatedly arisen at that time, and Reuters is not contractually bound to purchase such services from other providers.

Reuters owned approximately 14% and 16% of our outstanding voting stock as of December 31, 2004, and December 31, 2003, respectively. During the first quarter of 2004, Reuters notified us that they voluntarily suspended their right (under terms of their investment) to have an observer present at our board of directors and audit committee meetings. In addition, in December 2004, Reuters entered into an agreement to buy Telerate. A portion of the consideration in the acquisition is all of our stock owned by Reuters.

Telerate Agreement

In October 2002, we entered into a seven year Master Services Agreement (MSA) with Telerate that replaced a binding letter of intent dated October 18, 2001. Under the MSA, we are Telerate's exclusive network supplier and provide services including network services, colocation, help desk, warehousing and logistics, field installation and repair services. We have recognized revenue of $44.0 million, $54.4 million, and $70.3 million during 2004, 2003 and 2002, respectively, from Telerate under the MSA, as amended.

WAM!NET Transaction

On August 1, 2003, we entered into an asset purchase agreement with WAM!NET, a leading global provider of content management and delivery services, to acquire certain assets related to their commercial business operations, including their commercial customer contracts and related customer premises and other equipment. Under the terms of the agreement, we made an initial payment of $3.0 million for the acquired assets. The final purchase price was determined during the third quarter of 2004 to be $11.4 million based on the revenue derived from the acquired customers. We issued 4.4 million shares of our common stock in payment of approximately 50% of the total purchase price. We have commenced paying the balance in nine equal monthly installments of approximately $0.3 million. The remaining obligation at December 31, 2004, is $1.4 million. The final purchase price of $11.4 million has been allocated to property and equipment and customer contracts based on their relative fair values.

Long-Term Debt, Preferred Stock, and Warrants Outstanding

Series A Subordinated Notes

In the first quarter of 2004, we issued $200.0 million of our Series A Subordinated Notes (Subordinated Notes). The proceeds were used to fund the CWA acquisition and to fund the on-going operational, working capital and capital expenditure requirements related to the CWA acquired assets or caused by the CWA acquisition. The debt issuance costs associated with the Subordinated Notes were $2.0 million. The Subordinated Notes accrue interest based on a 365-day year at a rate of 12.5% per annum until February 3, 2005 and 15% per annum thereafter, payable in kind semi-annually on June 30 and December 31. The Subordinated Notes contain an early redemption feature, a make whole premium and a change of control clause. Upon a change of control the holders of the Subordinated Notes have the right to require us to redeem any or all of the Subordinated Notes at a cash price equal to 100% of the principal amount of the Subordinated Notes, plus all accrued and unpaid interest as of the effective date of the change in control. The Subordinated Notes mature in a single installment on February 9, 2009. The Subordinated Notes balance recorded on the balance sheet as of December 31, 2004 was $171.1 million, net of $55.7 million in unamortized Original Issue Discount resulting from the issuance of Series B Convertible Preferred Stock as discussed below. The fact amount of the original Subordinated Notes plus any notes issued for accrued interest is $226.8 million as of December 31, 2004.

Series A Convertible Preferred Stock

In 2002, we issued 203,070 shares of Series A Convertible Preferred Stock (Series A Preferred) to entities and individuals affiliated with Welsh, Carson, Anderson & Stowe (Welsh Carson), Constellation Ventures (Constellation), Reuters, and other parties. The Series A Preferred accrues dividends at the rate of 11.5% per annum on the outstanding accreted value thereof (initially $1,000 per share) through March 18, 2010. Thereafter, dividends will be payable in cash or in kind at our option. Accrued but unpaid dividends will be added to the outstanding accreted value quarterly. The Series A Preferred is convertible into such number of shares of our common stock equal to the outstanding accreted value divided by the conversion price, $0.75. In connection with this transaction, we granted the holders registration rights with respect to the shares of our common stock issuable upon conversion of the Series A Preferred, including demand registration rights and piggy-back registration rights. Additionally, we incurred $3.0 million in offering costs related to the issuance of the 203,070 shares of Series A Preferred which was recorded as a reduction of the convertible Series A Preferred balance in stockholders' equity/(deficit) in the consolidated balance sheets.

Series B Convertible Preferred Stock

During the first quarter of 2004, our Board of Directors authorized 11.0 million shares of Series B Convertible Preferred Stock (Series B Preferred) at a $.01 par value. In connection with the issuance of our Subordinated Notes as discussed above, we also issued warrants to purchase shares of the Series B Preferred to a group of investors that also included existing stockholders related to Welsh Carson and Constellation. The warrants were exercised simultaneously upon issuance on a "cashless" basis into 6.6 million shares of Series B Preferred. On December 9, 2004, we issued approximately 65.5 million shares of common stock upon conversion of the Series B Preferred. This common stock is not registered under the Securities Act and, therefore, may not be transferred or sold except pursuant to an effective registration statement or pursuant to an exemption from the registration requirement of the Securities Act. We granted Welsh Carson demand and piggy-back registration rights and we granted the other stockholders piggy-back registration rights only.

Warrants Outstanding

In connection with our recapitalization in 2002, we issued five-year warrants to Nortel Networks, Inc. and GECC to purchase approximately 6.4 million and 9.6 million shares, respectively, of our common stock at $0.75 per share. In the first quarter of 2004, GECC exercised their warrant pursuant to a "cashless exercise" and received approximately 7.0 million shares of our common stock.

Additionally in 2002, we issued five-year performance warrants to entities affiliated with Constellation to acquire shares of common stock at $0.75 per share. The warrants vested in a total of three tranches as Constellation earned the right to exercise the warrants when it met certain performance criteria related to aiding us in winning new business. During the fourth quarter of 2003, the first quarter of 2004, and the second quarter of 2004, respectively, Constellation met the performance criteria under the warrants causing 10.0 million warrants to vest, which resulted in non-cash equity-based compensation expense of $3.4 million, $6.6 million and $3.8 million, respectively. In the first quarter of 2004, Constellation exercised their first tranche of vested warrants pursuant to a "cashless exercise" and received approximately 2.6 million shares of our common stock. At December 31, 2004, 6.7 million warrants were vested and outstanding.

STATEMENT OF OPERATIONS CAPTION SUMMARY

Revenue. Our revenue is derived primarily from the sale of managed IP VPN, hosting, other network services, and digital content management. Revenue from a related party, Reuters, was, as a percentage of total revenue, approximately 13% for 2004, 33% for 2003, and 43% for 2002. We expect our revenue from related parties to continue to decrease as a percentage of our total revenues as we expand our diversified customer base. Our diversified customer base includes all customers except Reuters and Telerate.

Data Communications and Operations. Data communications and operations expenses include the cost of:

- leasing local access lines to connect customers to our points of presence (PoPs);
- leasing backbone circuits to interconnect our PoPs;
- IRU operations and maintenance;
- rental costs, utilities, and other operating costs for hosting space;
- Internet usage associated with CDN traffic;
- salaries and related benefits for engineering, service delivery/provisioning, customer service, consulting services personnel and operations personnel, who maintain our network, monitor network performance, resolve service faults, and install new sites; and
- other related repairs and maintenance items.

Sales, General and Administrative. These expenses include the cost of:

- sales and marketing salaries and related benefits;
- product management, pricing and support, salaries and related benefits;
- sales commissions and referral payments;
- advertising, direct marketing and trade shows;
- occupancy costs;
- executive, financial, legal, tax and administrative support personnel and related costs;
- professional services, including legal, accounting, tax and consulting services; and
- bad debt expense.

Integration Costs. Integration costs represent the incremental costs of combining the CWA and SAVVIS organizations, including rationalization of facilities, retention bonuses, integration consulting by third parties, which provide current or future benefit to the combined company. These costs are direct incremental costs incurred to obtain the synergies of the combined companies and are not expected to continue once we have completed our integration plan.

Depreciation, Amortization and Accretion. Depreciation and amortization expense consists primarily of the depreciation and amortization of communications equipment, leasehold improvements, facilities and other assets under capital leases and intangibles. Generally, depreciation and amortization is calculated using the straight-line method over the useful life of the associated asset. Subsequent to the CWA acquisition, accretion expenses related to the aging of the discounted present value of various liabilities including adjustments for contracts are included in this line item. The CWA acquisition significantly increased the depreciable asset and intangible asset base as much of the value was assigned to IRUs, communications equipment, and leasehold improvements.

Non-Cash Equity-Based Compensation. Non-cash equity-based compensation represents charges to earnings for the difference between the estimated fair market value of our common stock and the exercise price for options granted to employees, and compensation expense related to the vesting of the performance warrants granted to Constellation as more fully described above under the "Long-Term Debt, Preferred Stock, and Warrants Outstanding" caption.

Interest Expense. Interest expense is incurred relative to our Subordinated Notes and our capital lease obligations. Interest on our Subordinated Notes accrues on the $200.0 million of proceeds and the outstanding Subordinated Notes previously accrued as interest until February 3, 2005 at 12.5% increasing to 15% in the remaining four years of the term. The unamortized Original Issue Discount of $55.7 million is being accreted over the term of the Subordinated Notes and is reflected in interest expense. Interest on our capital lease liability with GECC is payable monthly at 9% increasing to 12% in September 2005. Interest on our capital lease liability with Du Pont Fabros accrues at approximately 17.5% and is compounded monthly. Cash interest payments on our capital lease with Du Pont Fabros commenced in the fourth quarter of 2004.

Income Tax Expense. We have incurred operating losses from inception through 2004 and, therefore, have not recorded a provision for income taxes in our historical financial statements. We have recorded a valuation allowance for the full amount of our net deferred tax assets because the future realization of the tax benefit is uncertain. At December 31, 2004, we have approximately $550.5 million in United States net operating loss carry-forwards expiring between 2011 and 2023, of which approximately $253.2 million is subject to the Section 382 limitation of the Internal Revenue Code.

RESULTS OF OPERATIONS

The historical financial information included in this Form 10-K will not reflect our future results of operations, financial position and cash flows.

The Year Ended December 31, 2004 as Compared to the Year Ended December 31, 2003

Executive Summary of Results of Operations

Our revenues increased 144% in 2004 primarily as a result of the addition of the CWA business, which outpaced declines in services provided to Reuters and Telerate. Gross margin increased $89.6 million or 100% over 2003 to $178.9 million, or 29% of revenue. Net loss was $148.8 million, a change from a net loss of $94.0 million in 2003 primarily driven by $27.7 million in integration expenses, a $44.8 million increase in net interest expense and other, and a $16.7 million increase in depreciation, amortization, and accretion expenses partially offset by a $2.9 million decrease in non-cash equity-based compensation. Our gross margin increased $89.6 million offset by an increase in sales, general and administrative of $74.0 million. Net loss in 2003 was impacted by the $8.1 million loss on the sale of a data center and the $7.9 million restructuring charge.

Revenues

	YEAR ENDED DECEMBER 31,			
(in thousands)	2004	2003	DOLLAR CHANGE	PERCENT CHANGE
Diversified Revenue:				
Managed IP VPN	$ 87,122	$ 57,679	$ 29,443	51%
Hosting	223,917	28,534	195,383	685%
Other Network Services	137,006	19,052	117,954	619%
Digital Content Management	46,763	10,434	36,329	348%
Total Diversified Revenue	494,808	115,699	379,109	328%
Reuters and Telerate	122,015	137,172	(15,157)	(11)%
Total Revenue	$616,823	$252,871	$363,952	144%

Revenue. Revenue was $616.8 million for the twelve months ended December 31, 2004, an increase of $364.0 million, or 144%, from $252.8 million for the twelve months ended December 31, 2003. The acquisition of CWA resulted in a significant increase in our customer base and impacted all categories of diversified revenue. Diversified managed IP VPN revenues increased $29.4 million, or 51%, to $87.1 million compared to $57.7 million for 2003. This growth was primarily attributed to new sales activity from the legacy SAVVIS business and only marginally impacted by the acquisition. Diversified hosting revenue increased $195.4 million, or 685%, to $223.9 million in 2004 from $28.5 million in 2003, due primarily to growth from the CWA acquisition. Other network services includes the legacy SAVVIS and CWA internet access revenues and CWA private line services which increased $118.0 million or 619% to $137.0 million in 2004, compared to $19.1 million for 2003. Digital content management revenues include CDN revenues and the revenues from WAMINET customers, which increased $36.3 million from the previous year. Digital content management 2004 revenue includes approximately 35% from a single customer, which we expect to decline in 2005. Growth in other network services and digital content management was primarily due to the acquisition and acquired business offerings.

Reuters and Telerate revenues were $122.0 million in the twelve months ended December 31, 2004, a decrease of $15.2 million, or 11%, from $137.2 million in the twelve months ended December 31, 2003. The decline represents a reduction in services provided, pricing reductions, and a reduction in Reuters' minimum purchase obligation with us.

Data Communications and Operations (exclusive of non-cash equity-based compensation, depreciation, amortization, and accretion). Data communications and operations expenses were $438.0 million for the twelve months ended December 31, 2004, an increase of $274.4 million, from $163.6 million in 2003. The increase in these costs was primarily related to the CWA acquisition to support the acquired revenue resulting in increases in each functional expense item including personnel costs, network expenses, facility rent, and facility maintenance. Furthermore, gross margin was $178.9 million for the twelve months ended December 31, 2004, an increase of $89.6 million, from $89.3 million in 2003. As a percentage of revenue, gross margin decreased to 29% in the current year, compared to 35% reported in 2003 primarily due to the lower gross margin of the acquired CWA business. Throughout 2004, as the legacy businesses were more fully integrated, the gross margin percentage increased. First quarter of 2004 reflected gross margin of 28% with only one month of CWA activity. Second quarter of 2004 was 25%, the lowest margin of the year, reflecting a full quarter of the CWA business lines and significant integration yet to be achieved. Third quarter results included a gross margin of 29%, and fourth quarter reflected the highest of the year with 33% gross margin. The fourth quarter results indicate significant benefit of integration and cost rationalization activities.

Sales, General and Administrative (exclusive of non-cash equity-based compensation). Sales, general and administrative expenses were $164.5 million for the twelve months ended December 31, 2004, an increase of $74.0 million, or 82%, from $90.5 million for 2003. This increase is primarily attributable to the CWA acquisition resulting in increases in personnel costs, commissions, temporary labor, provisions for bad debt, property taxes, and facility maintenance to support the growth in the business. Sales, general and administrative expenses as a percentage of revenue were 27% for 2004 as compared to 36% of